



Federal Accounting Standards Advisory Board

April 4, 2019

Memorandum

To: Members of the Board

*Ross Simms*

From: Ross Simms, Assistant Director

*Wendy M. Payne*

*Monica R. Valentine*

Through: Wendy M. Payne, Out-going Executive Director /Monica R. Valentine, In-coming Executive Director

Subj: Management's Discussion and Analysis – **TAB C**<sup>1</sup>

**MEMBER ACTIONS REQUESTED:**

By April 18, 2019 please review the materials and provide answers to the questions on page 4.

**OBJECTIVES**

The objective is to discuss a draft proposed Statement to amend Statement of Federal Financial Accounting Standards (SFFAS) 15, *Management's Discussion and Analysis*. The draft proposed Statement rescinds the format requirements for MD&A.

**BRIEFING MATERIALS**

The briefing material includes this memorandum and the following attachment:

- A draft exposure draft Statement to amend SFFAS 15.

**BACKGROUND**

During the February 2019 meeting, the Board agreed to amend SFFAS 15 rather than develop an Interpretation. The Board noted that reporting entity mission-related

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<sup>1</sup> The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

programs, functions, and activities are complex; therefore, preparers need a flexible framework to discuss the topics SFFAS 15 requires. SFFAS 15, however, is explicit regarding the structure of MD&A and requires preparers to organize their discussion of specific topics into specific sections. The Board agreed that the requirement should be changed to provide the flexibility preparers need to communicate with users.

## **NEXT STEPS**

The next steps for the project will be determined during the meeting.

## **MEMBER FEEDBACK**

If you have any questions or comments, please contact me by telephone at (202) 512-2512 or by email at [simmsr@fasab.gov](mailto:simmsr@fasab.gov) with a cc to Ms. Payne at [paynew@fasab.gov](mailto:paynew@fasab.gov) and Ms. Valentine at [valentinem@fasab.gov](mailto:valentinem@fasab.gov).

## **Staff Analysis and Proposal**

Staff developed a draft proposal based on the Board's comments during the February 2019 meeting. SFFAS 15, paragraph 1, specifies the information that MD&A should discuss and SFFAS 15, paragraph 2, specifies the format for discussing the information. SFFAS 15, paragraph 2 states

MD&A should contain sections that address the entity's:

- mission and organizational structure;
- performance goals, objectives, and results;
- financial statements; and
- systems, controls, and legal compliance.

To permit reporting entities to have flexibility in discussing the topics specified in SFFAS 15, paragraph 1, staff's proposed Statement would rescind SFFAS 15, paragraph 2 and eliminate the MD&A format requirement. In addition, SFFAS 15, paragraphs 3 and 4 refer to the format requirements in SFFAS 15, paragraph 2. The draft proposed Statement would remove these references.

**Question 1:** Does the Board agree with the proposed amendments to SFFAS 15?

**Question 2:** What comments do members have regarding the draft proposed Statement?

## QUESTIONS FOR THE BOARD

1. Does the Board agree with the proposed amendments to SFFAS 15?
2. What comments do members have regarding the draft proposed Statement?



Federal Accounting Standards Advisory Board

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# IMPROVING MANAGEMENT'S DISCUSSION AND ANALYSIS

AMENDING SFFAS 15, MANAGEMENT'S DISCUSSION AND ANALYSIS

**Statement of Federal Financial Accounting Standards**

**Exposure Draft**

Written comments are requested by [date 90 days after issuance]

Month day, year

Working Draft – Comments Are Not Requested on This Draft

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## THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information and other items of interest are available at [www.fasab.gov](http://www.fasab.gov):

- [Memorandum of Understanding](#) among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board
- [Mission statement](#)
- [Documents for comment](#)
- [Statements of Federal Financial Accounting Standards and Concepts](#)
- [FASAB newsletters](#)

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### Contact Us

Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 1155  
Mailstop 1155  
Washington, D.C. 20548  
Telephone 202-512-7350  
Fax 202-512-7366  
[www.fasab.gov](http://www.fasab.gov)



## Federal Accounting Standards Advisory Board

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### ISSUE DATE

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) requests your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Improving Management’s Discussion and Analysis: Amending SFFAS 15, Management’s Discussion and Analysis*. Specific questions for your consideration appear on page 3, but you are welcome to comment on any aspect of this proposal. If you do not agree with specific matters or proposals, your responses will be most helpful to the Board if you explain the reasons for your positions and any alternatives you propose. Responses are requested by **DUE DATE**.

All comments received by FASAB are considered public information. Those comments may be posted to [FASAB's website](#) and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Please provide your comments by email to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to email your responses, we encourage you to fax comments to 202-512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 1155  
Mailstop 1155  
Washington, D.C. 20548

We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at 202-512-7350 to determine if your comments were received.

FASAB's rules of procedure provide that the Board may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in its newsletter.

Sincerely,

D. Scott Showalter  
Chair

## EXECUTIVE SUMMARY

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### WHAT IS THE BOARD PROPOSING?

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This proposed Statement would permit reporting entities to structure management's discussion and analysis (MD&A) in a manner most appropriate for communicating with its general purpose federal financial report (GPFFR) users.

### HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

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Users of GPFFR need information about the reporting entity's mission and organizational structure; performance goals, objectives, and results; financial statements; and systems, controls, and legal compliance. SFFAS 15 requires reporting entities to analyze and discuss each topic in a discrete section; however, providing this information in a format that is concise in its presentation and most relevant to the entity's mission and operations would better optimize its value to users. To that end, reporting entities need flexibility to present the information because the scope and nature of their mission-related programs, functions, or activities can be diverse, complex, and provided across multiple locations.

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## QUESTIONS FOR RESPONDENTS

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The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Statement before responding to the questions below. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Because FASAB may modify the proposals before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have regarding implementing this proposal.

The questions in this section are available in a Microsoft Word file for your use at <http://www.fasab.gov/documents-for-comment/>. Your responses should be sent to [fasab@fasab.gov](mailto:fasab@fasab.gov). If you are unable to respond by email, please fax your responses to 202-512-7366. Alternatively, you may mail your responses to:

Wendy M. Payne, Executive Director  
Federal Accounting Standards Advisory Board  
Mailstop 1155  
441 G Street, NW, Suite 1155  
Washington, D.C. 20548

All responses are requested by [insert date].

- Q1. The proposed Statement permits reporting entities to organize and present MD&A in a format most appropriate for communicating with its GPFFR users. Refer to paragraphs 2 and 3.

**Do you agree or disagree with the proposed Statement? Please provide the rationale for your answer.**

## PROPOSED STANDARDS

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### SCOPE

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1. This Statement applies to federal entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

### AMENDMENTS TO SFFAS 15, MANAGEMENT'S DISCUSSION AND ANALYSIS

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2. This paragraph rescinds SFFAS 15, paragraph 2. In doing so, this permits reporting entities to organize and present MD&A in a format most appropriate for communicating with its GPFFR users.
3. With the rescission of the requirement to organize MD&A in a specific format, this paragraph amends SFFAS 15, paragraphs 3 and 4 by removing references to a specific MD&A structure.
3. MD&A should include forward-looking information regarding the possible future effects of the most important existing, currently-known demands, risks, uncertainties, events, conditions and trends. MD&A may also include forward-looking information about the possible effects of anticipated future demands, events, conditions, and trends. [Footnote 3] ~~Forward-looking information may comprise a separate section of MD&A or may be incorporated with the sections listed above.~~

[Footnote 3: The word “anticipated” is used in a broad, generic sense in this document. In this context the term may encompass both “probable” losses arising from events that have occurred, which should be recognized on the face of the basic or “principal” financial statements, as well as “reasonably possible” losses arising from events that have occurred, which should be disclosed in notes to those statements. “Anticipated” may include the effects of future events that are deemed probable, for which a financial forecast would be appropriate. The term may also encompass hypothetical future trends or events that are not necessarily deemed probable, for which financial projections may be appropriate. Such information about the possible effects of anticipated future demands, events, conditions and trends, if presented, should include the term or label “projected” or “projection,” and the key hypothetical underlying assumptions should be explained. As with other information presented in MD&A, no examination of this information by the auditor is now routinely included within the scope of an audit of a federal entity’s financial statements; however, preparers and auditors may find useful background information in the AICPA’s Statements on Standards for Attestation Engagements Nos. 1 and 4, codified as section 200, “Financial Forecasts and Projections,” of the AICPA’s *Codification of Statements on Standards for Attestation Engagements*.]

4. MD&A should discuss important problems that need to be addressed, and actions that have been taken or planned. ~~Actions needed, taken, and planned may be discussed within the sections listed above or in a separate section of MD&A.~~

#### EFFECTIVE DATE

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4. The requirements of this Statement are effective upon issuance.

The provisions of this Statement need not be applied to immaterial items.

## APPENDIX A: BASIS FOR CONCLUSIONS

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This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. The authoritative sections of the Statements are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

### PROJECT HISTORY

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- A1. The Board initiated the project to improve the MD&A section of GPFFRs. MD&A standards require the discussion of specific topics in specific sections of MD&A. The Board, however, noted that reporting entities need a flexible framework to help users fully understand the entity's mission-related programs, functions, and activities. Reporting entities have complex operations and provide diverse programs, functions, and activities.
- A2. Also, some reporting entity matters involve interrelated topics, such as changes in the entity's budgetary resources. Adhering to a structure of discrete sections for a discussion on the entity's mission; performance; financial statements; systems, controls, and legal compliance; and forward-looking information could result in redundant discussions and obscure other information relevant to users. Instead, MD&A should be organized in a clear and logical manner.

## APPENDIX B: ABBREVIATIONS

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ED	Exposure Draft
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GASB	Governmental Accounting Standards Board
GPFFR	General Purpose Federal Financial Report
OMB	Office of Management and Budget
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards

### **FASAB Members**

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R. Scott Bell

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Robert F. Dacey

George A. Scott

Michael H. Granof

Patrick McNamee

Graylin E. Smith

Timothy F. Soltis

### **FASAB Staff**

Wendy M. Payne, Out-going Executive Director

Monica R. Valentine, In-coming Executive Director

Ross Simms, Assistant Director

### **Federal Accounting Standards Advisory Board**

441 G Street, NW

Suite 1155

Washington, D.C. 20548

Telephone 202-512-7350

Fax 202-512-7366

[www.fasab.gov](http://www.fasab.gov)